

Research Bulletin

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Towards Business Integration

The systems integration market has traditionally been focused on large development project service opportunities.

Intense cost and time pressures, the rise of open systems, and the increasing availability of standard software products are generating increased project demand at lower levels of cost.

Consequently SI (Systems Integration) vendors should reappraise their market positioning in order to exploit business system development and implementation opportunities at the broadest possible level.

This bulletin explores this theme focusing on:

- The changing nature of development projects
- The relationship between systems integration and turnkey systems
- The total market opportunity for business integration.

Changes in Development Projects

The systems integration and professional services markets are presently in a period of transition in which some of the fundamental tenets which vendors, purchasers and commentators have understood and come to regard as constants are changing.

There is a marked change in the systems integration market driven by increased user sophistication and expectation. This has resulted in growing demands from purchasers that vendors demonstrate, and almost guarantee, that a project will come in on budget in time and with measurable value in business terms.

The most significant trends in the marketplace can be characterised as:

- An increasing proportion of smaller sized projects
- Custom development being replaced by standard product integration
- Attempts by vendors to move away from fixed price contracts.

The market is witnessing a growing number of lower cost projects, partly generated by the break-up of large projects into related phases of development. The imperative to cut costs and achieve short term results has led to a reluctance on the part of many executives to sanction *mega* SI deals and to be satisfied with more modest, and more realistic, project aims.

There is also clearly a movement away from custom development project delivery towards standard product integration. These projects utilise stable and proven packaged software products rather than risk a large element of custom developed software.

These projects require a smaller, but more highly skilled number of programmers.

There is also a move by vendors to consider innovative pricing strategies for system development contracting. From the vendor's perspective fixed-price contracts represent the highest level of risk whilst time and materials contracts represent the least risk exposure providing the project's business aims are met.

Vendors are considering pricing strategies that promote risk sharing and reduce profit erosion. Greater involvement in the client's business processes and applications is a necessary element of this approach.

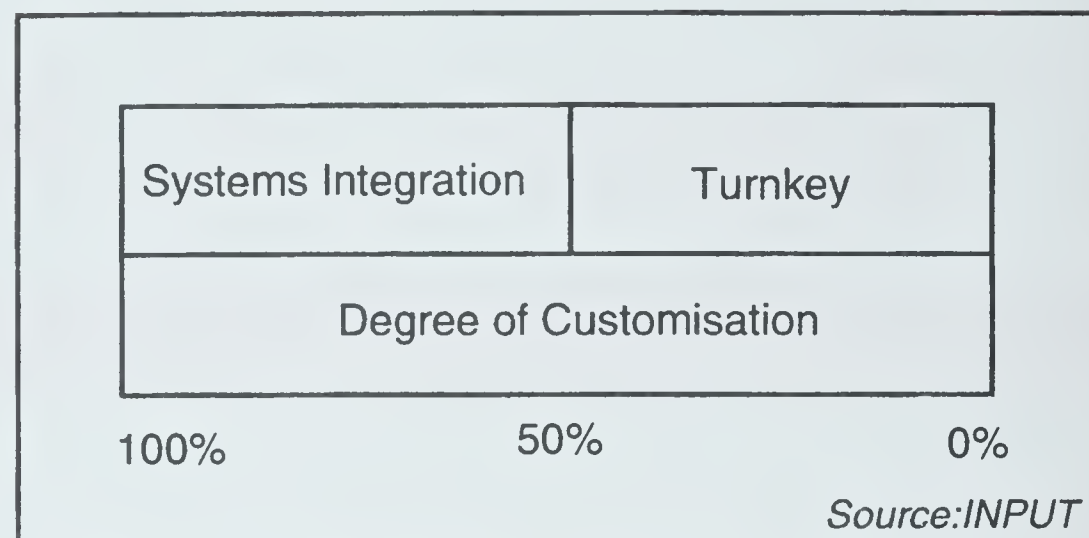
Turnkey Systems Growth

Turnkey systems which have been regarded as an antiquated delivery mode by some vendors, are still an important part of the overall software and services market. In practice it has been fashionable over the last few years to refer to almost all development work as systems integration.

In definitional terms the distinction between turnkey systems and systems integration is very clear as shown in Exhibit 1.

Exhibit 1

The Customisation Spectrum



Increasing demand for turnkey projects is particularly evident in organisations such as hotels, automobile retail outlets, and medical centres where there is a relatively low cost/ low function requirement, but where there is a significant opportunity for vendors to replicate a solution for a large number of organisations.

The boundary between the professional services activity within SI and that on an independent basis is another area which needs careful consideration. The need to understand this complex interface is increasing as a result of the fierce battle being fought between established SI vendors, services firms, management consultancies, software product vendors, and new entrants from areas such as telecommunications.

Fierce competitive conditions in the market for management consultancy has led management consultants to aggressively explore opportunities outside their traditional markets. This has also clearly contributed to increased pressure on systems integration vendors.

These changes present a number of challenges to vendors of business integration services in their continuing efforts to optimise their opportunities in the marketplace.

The Total Market Opportunity for Business Integration

In assessing opportunities it is important for vendors to consider the entire potential market for business integration services, effectively the combination of custom software development, systems integration

and turnkey systems delivery modes.

Exhibit 2 presents a consolidation of business integration delivery modes and their components.

Exhibit 3 shows the forecast growth for the professional services element of these delivery modes.

Exhibit 2

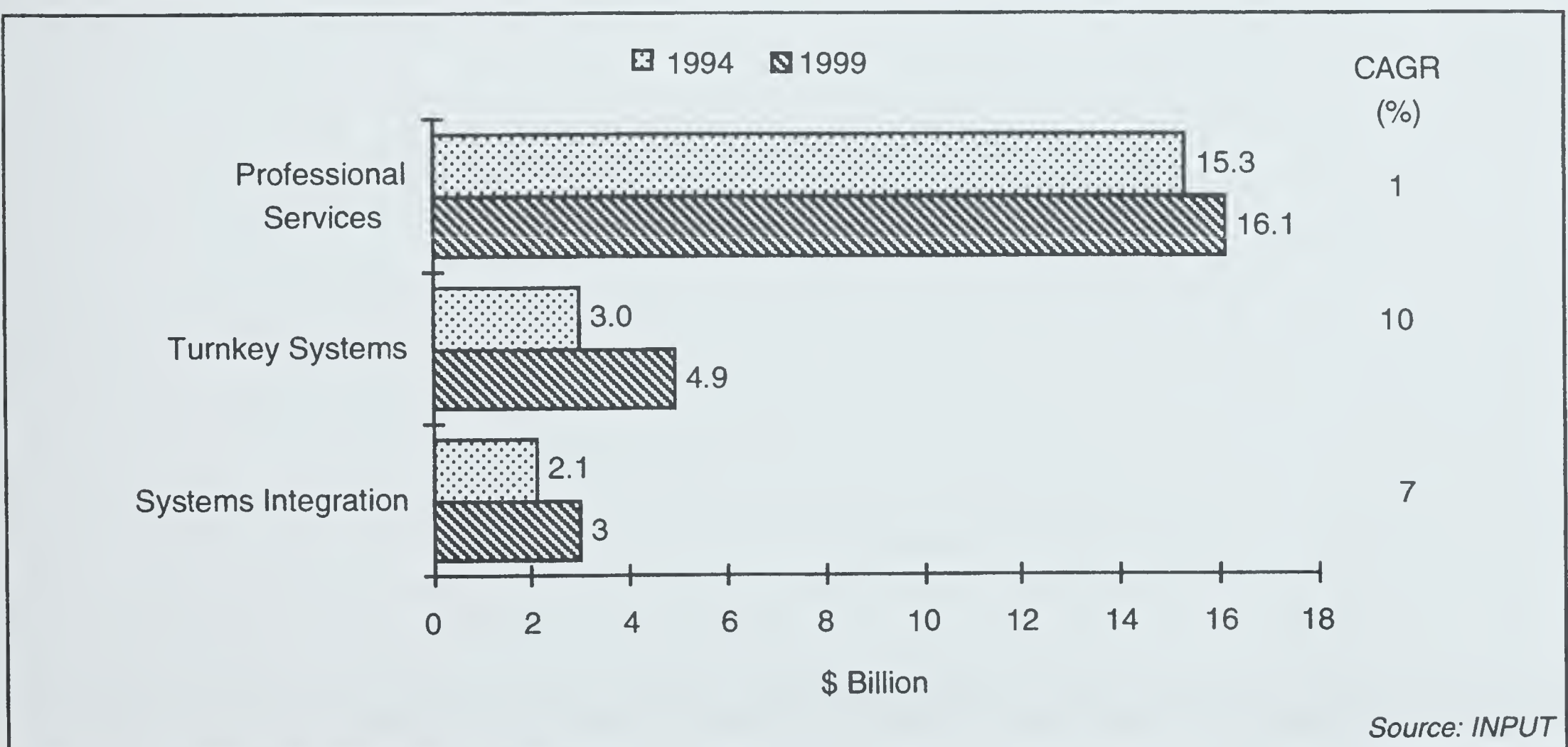
The European Business Integration Market — 1994 (\$ Billion)

Delivery Mode	Professional Services	Systems Integration	Turnkey Systems
Component			
Custom Software Development and other Professional Services	15.3	2.1	3.0
Software Products	—	1.3	3.0
Equipment	—	1.2	5.7
Other Services	—	0.1	—
Total	15.3	4.7	11.7

Source: INPUT

Exhibit 3

Business Integration — Europe (Custom Software Development and associated Professional Services)



Key capabilities of systems integration, i.e. prime contracting and multi platform/network integration, will remain of undiminished importance.

As already indicated, the turnkey delivery mode is predicted to remain an important opportunity, significantly greater in size than that of systems integration.

Vendors will need to adopt a fluid, adaptable approach, and be able to demonstrate the ability to recommend and implement different solutions to meet different customer requirements.

This Research Bulletin is issued as part of INPUT's Business Integration Programme – Europe. If you have any questions or comments on this bulletin, please call your local INPUT organisation or Ben Pring at INPUT, 17 Hill Street, London, W1X 7FB, UK, +44 (0) 71 493 9335.